Department of Justice

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AMERICAN INTERNATIONAL GROUP, INC. ENTERS INTO AGREEMENT WITH THE UNITED STATES

WASHINGTON, D.C. – American International Group, Inc. (AIG) has agreed to resolve criminal liability arising from misstatements in its periodic financial reports filed with the U.S. Securities and Exchange Commission (SEC) between 2000 and 2004 by paying $25 million in penalties to the United States and cooperating fully in the government's continuing criminal investigation, Acting Deputy Attorney General Paul J. McNulty and Assistant Attorney General Alice S. Fisher of the Criminal Division announced today.

The resolution, which was set forth in a letter agreement between the Fraud Section of the Department of Justice and AIG, addresses AIG's liability for two transactions. The first transaction involved a fraudulent scheme between AIG and General Re Corporation (Gen Re) that was designed to create the appearance that AIG had increased its loss reserves, a key financial indicator for insurance companies. During the fourth quarter of 2000, high-level executives at AIG solicited high-level executives at Gen Re to execute a series of transactions which were designed to enable AIG to improperly report an increase in loss reserves totaling $500 million. As a result of these fraudulent transactions with Gen Re, AIG improperly booked approximately $250 million in loss reserves in the fourth quarter of 2000 and an additional $250 million in loss reserves in the first quarter of 2001. It reported those additional loss reserves to the public in its earnings releases and in financial reports it filed with the SEC. AIG entered into these transactions following investment analysts' criticism of AIG's reported loss reserve reductions in the third quarter of 2000.

The transaction documentation included: a false "paper trail" offer letter which made it appear that AIG had been requested by Gen Re to assume certain reinsurance risk from Gen Re; and contracts which made it appear that AIG was assuming reinsurance risk and was being paid an up-front fee of $10 million for doing so, when, in fact, AIG was not assuming any real risk and was paying Gen Re an undisclosed $5 million plus interest for participating in the transactions. As a result of these sham transactions, AIG improperly reported positive loss reserve growth for each of those periods when, in fact, AIG would have reported further decreases in loss reserves for those quarters.

This transaction also was the subject of an indictment returned last week in the Eastern District of Virginia which charged three former Gen Re executives and one former AIG executive with conspiracy, securities fraud, mail and wire fraud and making false statements to the SEC. That indictment is not affected by today's agreement with AIG.

In the second transaction covered by the agreement, AIG hid approximately $200 million in underwriting losses in 2000 in its general insurance business by improperly converting them into capital losses (i.e., investment losses) that were less important to the investment community and thus would blunt the attention of investors and analysts. As a result of transactions with

Capco Reinsurance Company, Ltd. (Capco), an offshore entity, AIG improperly failed to report in its SEC filings and earnings releases approximately $200 million in underwriting losses for the years 2000, 2001 and 2002. AIG structured a series of bogus transactions to convert underwriting losses to investment losses by transferring them to Capco. AIG effectively capitalized Capco through an AIG subsidiary and through loans to individuals who supposedly acted as independent shareholders of Capco.

AIG has agreed to accept responsibility for its actions and the actions of its employees. Subject to the terms of the agreement, the Department of Justice has agreed not to prosecute AIG for any crimes committed by the corporation relating to these two transactions.

“Corporations have a responsibility for honest reporting of their financial condition to the SEC and the investing public,” said Acting Deputy Attorney General McNulty. “Today’s settlement sends a clear message to every publicly traded corporation that ‘hitting the numbers’ must take a back seat to accurate financial reporting. This settlement is a major step forward in our efforts to strengthen the integrity of the investment marketplace and our system of accountability.”

“The integrity of the nation’s markets is built on a foundation of responsible corporate citizenship,” said Assistant Attorney General Fisher. “Companies must ensure that business is conducted in a legal manner, and they should also be prepared to accept responsibility and reform their practices when their actions or the actions of their employees run afoul of the law.”

“It is befitting that during National Consumer Protection Week the penalties paid will be deposited into the Consumer Fraud Fund. These funds will enhance our efforts in protecting the American consumer and the integrity of our nation’s mail system through consumer education and prevention programs,” said Lee R. Heath, Chief Postal Inspector, U.S. Postal Inspection Service.

In a related enforcement proceeding filed earlier today by the U.S. Securities and Exchange Commission, AIG consented to the entry of a judgment requiring AIG, among other things, to pay $800 million in penalties.

The case was prosecuted by Trial Attorneys Colleen Conry, Eva Saketkoo and Michael K. Atkinson of the Fraud Section, which is headed by Acting Chief Paul E. Pelletier. The case was investigated by the U.S. Postal Inspection Service. The indictment of the former AIG and Gen Re executives was also prosecuted by Raymond Patricco and Michael Dry, Assistant U.S. Attorneys in the Eastern District of Virginia.

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